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THE INTERSTATE COMMERCE ACT:

Its Operation and Its Results.

ADDRESS AT THE DINNER

OF THE

COMMERCIAL CLUB OF BOSTON,

DECEMBER 13, 1888,

BY

CHARLES FRANCIS ADAMS.

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MR. PRESIDENT AND GENTLEMEN: —

You have asked me, as the representative of one of the large railroad systems of the country, to express my views this evening on the subject of the Interstate Commerce Act and its practical working, as seen through the experience of the last two years. Just now we hear, especially in financial and railroad circles, loud denunciation of this law. It is constantly referred to as the prolific source to which all the evils under which the railroad system is suffering can be traced. For reasons which I shall presently state, I do not regard the Interstate Commerce Act as in all respects a well-considered or a beneficent law. I am very sure that it has not produced the beneficial results which were hoped from it; but I see no good reason for referring to it in the way so common of late.

That the general railroad situation of the country is at present unsatisfactory is apparent. Stockholders are complaining; directors are bewildered; bankers are frightened. Yet that the Interstate Commerce Act is in the main responsible for all these results, remains to be proved. In my opinion, the difficulty is far more deep-seated and radical. In plain words, it does not lie in any act of legislation, State or national; and it does lie in the covetousness, want of good faith, and low moral tone of those in whose hands the management of the railroad system now is;—in a word, in the absence among them of any high standard of commercial honor.

These are strong words, and yet, as the result of a personal experience stretching over nearly twenty years, I make bold to say they are not so strong as the occasion would justify. The railroad system of this country, especially of the region west of Chicago, is to-day managed on principles which—unless

a change of heart occurs, and that soon — must inevitably lead to financial disaster of the most serious kind. There is among the lines composing that system an utter disregard of those fundamental ideas of truth, fair play and fair dealing, which lie at the foundation not only of the Christian faith, but of civilization itself. With them there is but one rule,— that, many years ago, put by Wordsworth into the mouth of Rob Roy: —

“The simple rule, the good old plan,
That he shall take who has the power,
And he shall keep who can.”

The state of things in this respect was bad enough before the passage of the Interstate Commerce Act, but the operation of that Act has greatly aggravated what was bad enough before. Since that Act went into effect two years ago, there has been what might be called a craze for railroad construction. Great corporations, one after the other, have contracted the madness, and have built hundreds of miles of road, almost paralleling each other. In many cases they have actually paralleled each other across wide tracts of country in which no human being lived. This is true in Wisconsin, in Minnesota, in Nebraska, in Kansas. Only a day or two since, some citizens of the West called upon me, and wanted a branch of the Union Pacific built. I examined the map, and found that there was already a railroad between the two points named. They wanted us to build a parallel road a short distance from it. I suggested to them ironically that it would be better for us to build on the right of way of the other road, so as to make what would practically be one double-track road. To my surprise, they were so accustomed to railroad follies that the irony of the proposition did not suggest itself to them. They remarked, with all possible gravity, that this would be altogether the best way of doing the thing. They simply wanted a competing road, built by Eastern capital, alongside of another road already built, also by Eastern capital.

The construction of all these miles of railroad, for which hardly any immediate demand existed, made a readjustment of

traffic necessary. That is, the moment the roads were finished, the problem passed out of the hands of the engineer into the hands of the freight agent, by whom traffic of some sort for the new roads had to be provided. The Interstate Commerce Act was in operation. It was impossible to pool, and the long haul regulated the short haul. Then followed a depth of railroad morals among freight agents lower than had even previously existed,—and that is saying much. The dishonest methods of rate-cutting, the secret systems of rebates, the indirect and hidden payments made to influence the course of traffic, resorted to or devised during the last two years, I do not hesitate to say are unprecedented in the whole bad record of the past. In this respect, I endorse every word of indignant denunciation which Judge Cooley, of the Interstate Commerce Commission, is reported to have recently uttered. Names of members or employees of firms whose business it was desirable to secure, but to whom it was unlawful openly to allow a rebate, have been put upon the pay-rolls of companies at salaries equal to the estimated amount of what the rebate would have been; where the influence of a particular person was thought necessary to secure certain shipments, he has been advised that the Company wished to consult him, but, in order that it might do so more conveniently, he must live in a house in a certain quarter,—and the rent of that house has been paid by the Company; where it was thought expedient to cut the rate on passenger tickets to a given point without affecting the rates to intermediate points under the Interstate Commerce Act, tickets to that point have been placed by the hundred in the hands of “scalpers,” and they were allowed a commission equal to half the price of the ticket. This commission, the allowance of which the Act did not specifically forbid, the “scalper” again shared with the purchasers of the tickets.

It will be asked why the penalties of the Interstate Commerce Act are not enforced against those who thus directly and indirectly evade its provisions. The question may be asked of me,—Why do you not give information, and institute proceedings under the law? I merely say, in reply, that, apart from a preju-

dice against being an informer, while I am morally sure that these things are done, I cannot furnish legal proof of them. My information comes indirectly or at second hand; and, while I have no doubt myself of its accuracy, yet if I were brought to book as to time and place and circumstance, I could not give them. The thousand evasions of the Interstate Commerce Act cannot be proved in court. Yet, among us railroad men, the fact that these things are done is notorious. It is all part and parcel of that sneak-thief and pickpocket method of doing business which has become a second nature in certain grades of the railroad service.

The community, and least of all the railroad community, should not, therefore, either be deceived or deceive themselves. It is this absence of good faith, this greed of acquisition, this turning over of business to subordinates to hack away at each other at the expense of the stockholders, which has brought the railroad system to its present low condition, and threatens to carry it still lower. To attribute it to the Interstate Commerce Act is an utter mistake. If that Act were totally repealed to-morrow, it would produce but a temporary and stock-jobbing relief. For a few days things might be apparently better; but they would be sure to drop heavily back again into their present bad estate, unless the knife of reform went deeper and cut at the root of the evils I have referred to. The railroad system must heal itself; no Act of Congress, or repeal of any Act of Congress, will greatly help it.

But in saying what I have said, I do not mean to imply that in my judgment the Interstate Commerce Act is a harmless, much less a useful, piece of legislation. On the contrary, I am very sure that, as it stands, it is not. It has been in operation two years, and we now begin to feel its effect, and to be able to forecast its results. And both its present effect and its future results are exactly those which its framers never contemplated, and from which, if they realized them as we do, they would recoil. The process of gravitation and consolidation, so far as the railroads are concerned, was going on fast enough before, but the Interstate Commerce Act has given to it a new

impetus. It has done this through a process which is unmistakable to all who make a study of the subject. The practice known as pooling, which the Interstate Commerce Act inhibits, was merely a method through which the weaker railroad corporations were kept alive. To prevent excessive and unequal competition, business was so divided that the less favored corporation had some share of traffic assigned to it. This practice the law put a stop to; and it further enacted that rates to competing points should not be less than rates to intermediate points.

These enactments struck at the very foundation of the business system upon which the railroads in the country, and the country itself, had been built up, and it took some time for them to produce their results. They have of late been doing so. Under the operation of the Act, the smaller local railroads throughout the country are being ground out of existence. It is the long haul which brings in the profit. The smaller independent railroads cannot have the long haul, and can only be operated profitably in connection with the larger railroads. They are thus, one by one, becoming unremunerative, and being forced, whether they like it or not, into the maws of the few great systems into which the railroads of the country are rapidly crystallizing.

So much for the practical working of a law inhibiting pooling. Next came the long and short haul clause. Just as the small, local railroads are crushed out of existence by the anti-pooling clause, so the local points of distribution and second-class business centers throughout the country find themselves, because of the long and short haul clause, unable to compete with the great commercial centers. Traffic, under the provisions of the Act, must inevitably seek the railroad having the long haul to the most distant and largest center. The operation of the law in this respect is now beginning to make itself felt upon the smaller distributing points. They are deprived of their markets, for those who formerly bought of them can get the same goods on better terms from the larger and more distant centers. The old local system of distribution

is broken up in favor of the centralized system. This fact is now making itself apparent to the manufacturers and jobbers of the smaller cities or towns as against Chicago, St. Louis, or Cincinnati; — but, as sure as the law of gravitation applies to all places and works under all circumstances, this same long and short haul clause will next make itself felt against Chicago, St. Louis and Cincinnati, and in favor of New York. In other words, contrary to every design of those who framed the Act, its provisions have lent a new impetus to just those forces which it was intended to hold in check. Instead of building up the local road and the small distributing center, it is working the sure destruction of both. An artificial, but most powerful, impetus has thus been given to the process of centralization. With the body politic, as with the human body, a mistaken remedy only aggravates the disease. The remedy in this case was a mistaken one, and the danger now is lest, seeing the disease aggravated, the physician should conclude that he had fallen into the vulgar error of not giving enough of his sure-cure remedy, and so proceed to double the dose. It is not another dose of the same treatment, but a wholly different treatment which is required.

Under these circumstances, it may perhaps be asked what my view of the future is, and what should now be done. While I do not care to set up as a prophet, the trend of events seems to me plain enough; nor do I believe that any Act of Congress or of State Legislature can thwart or greatly change it. The railroads of this country are moving rapidly towards some great system of consolidation. I do not know when or how it will come about; nor is it necessary now to consider this. Neither do I believe it will prove an evil, when it does come. Nevertheless, it is a matter of common notoriety that such a result is viewed with grave, popular apprehension. We have seen what the progress of the last twenty years has been in this respect. Crystallization has gone on during those years, so that, while then a railroad of 200 or 300 miles was considered large, one of 5,000 or 6,000 miles is now far from being the largest. As I have pointed out, the movement is to-day going forward more

rapidly, much more rapidly, under the artificial impetus given to it by the Interstate Commerce Act, than ever before. The next move will be in the direction of railroad systems of 20,000 miles each, under one common management. The Interstate Commerce Act, acting on the tendency of natural forces, is at this moment rapidly driving us forward towards some grand railroad trust scheme. Even this, from my point of view, I cannot regard as a thing to be dreaded. I am very sure now, as I have been for the last twenty years, and as I long ago expressed myself, that a great consolidated corporation, or even trust, can be held to a far stricter responsibility to the law than numerous smaller and conflicting corporations. Under the existing system no one can be held to account. Evasion is always possible, and invariably it is "the other man" who is responsible for the wickedness. With one large corporation or trust, it would be otherwise. Both law and popular opinion could, and certainly would, be directed against it.

The course of events, so far as next week is concerned, seems to me, therefore, sufficiently apparent. Neither, I say once more, can I see anything in it which should cause public or private anxiety. The doubt in my mind exists as to what is going to happen between now and next week; what will take place to-morrow. Events are moving altogether too fast, even for our times. I would, therefore, like to see the Interstate Commerce Act amended as respects the pooling provision and the long and short haul clause, simply as a method of putting on the brakes. The time is not ripe for what is impending. They are talking of trusts and consolidations to be effected to-morrow, when it seems to me that in the natural order of events they would not take place until next week. An amendment of the Interstate Commerce Act in the two respects I have indicated would, in my judgment, tend to delay this progress of events. It would not, it is true, touch those radical evils in the railroad organization — that absence of faith, that insatiable greed, that low sense of commercial honor — of which I have spoken. These can only be cured in one way. That one way is, by placing responsibility on individuals.

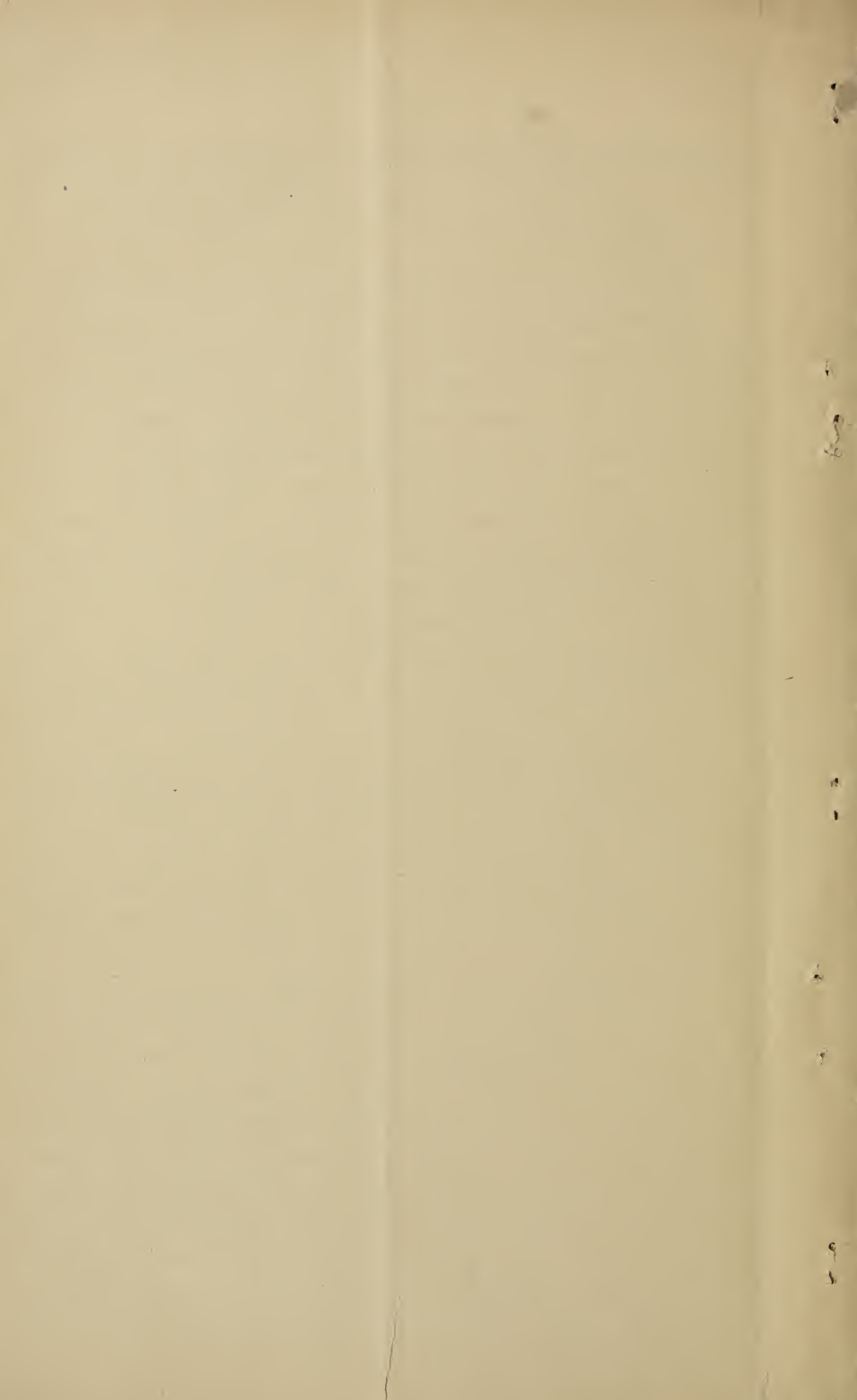
It is for this reason that I could not the other day but regret the signs of public disapproval with which a scheme for a railroad clearing-house in the West was met. It was at once characterized in the papers as a vast "trust,"—in these days everything is a "trust,"—and denounced as a conspiracy. It was nothing of the sort. There was not a feature of what is known as a trust in the scheme,—hardly a feature of a pool. On the contrary, a well-devised railroad clearing-house scheme would prove in practice, whether so intended or not, in the direct line of the enforcement of the Interstate Commerce Act in all its better features, and it has many such. That rates can in these days and this country long be more than reasonable, I do not believe. A reasonable system of railroad rates, publicly announced, equal to all and honestly maintained, is the commercial need of the day; and not less so for the community of business men than for the railroads themselves. This was one of the results which it was hoped the Interstate Commerce Act would bring about when, two years ago, it went into effect. In practice it has only aggravated the evils it was intended to remedy. In my belief, it cannot produce any other result until the railroads themselves co-operate with the Act; and they cannot co-operate until they are brought together in one responsible organization to enforce its provisions. There must be some one somewhere to whom public opinion can look; and then, when the abuses to which I have referred are committed, the finger of public opinion will assuredly point to the responsible man.

For myself, and on behalf of the Company of which I am the responsible head, I will say that to-day, and so long as it stands on the statute-book, we would welcome the rigid and literal enforcement of every provision of the Interstate Commerce Act. It is either a good law or a bad law. If it is a good law, it should be obligatory on all alike, the sneak-thief and the pickpocket as well as the law-abiding citizen; it should no longer be a cover under which the former ply their vocation undisturbed, to the extreme detriment of the latter. If it is not a good law, we believe in General Grant's aphorism, that the

proper way to repeal a bad law is to execute it; and we would have every provision of this law rigidly enforced, to the end that it might produce its natural results with a view to amendment or repeal.

If, therefore, I were asked this evening for concrete propositions embodying the measures most likely to work an important and desirable reform in the railroad situation, I would say,—Delay, at least for a time, the present too rapid tendency towards crystallization or consolidation by repealing the features of the Interstate Commerce Act which are precipitating events in that direction. If the anti-pooling provisions of the Act may not be wholly repealed, let them, at least, be so modified that contracts made among railroads, subject to the approval of the Interstate Commerce Commission, for the division of competitive traffic at reasonable rates, may be binding in law. Then, more and most of all, encourage and facilitate any movement among those interested which will tend to raise the standard of commercial morality in railroad circles; and be assured, nothing will tend more directly and immediately to that result than the organization of the railroads into some public and recognized clearing-house system through which the traffic management of the country can be taken out of the hands of irresponsible subordinates who now so vilely abuse it, and restored to those who should be responsible, in fact as well as in name, for the companies of which they are the heads.

This I hold to be the work of to-day. That the material and scientific development which is hurrying us forward towards greater centralization can be paralyzed or set at nought by Act of Congress, I do not for an instant believe. But it is not wise to look too far into the future, for it is the unexpected which is apt to occur. The work of the present is clear, and it is enough; and the work of the present should, in my judgment, be to retard rather than to accelerate the tendencies to which I have referred on the one hand, and to create a higher standard of railroad honor through organization and individual responsibility on the other. The law and the influences now at work are doing neither the one nor the other.



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